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Group 17
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economic Review

WHAT NEXT?

After October 5th, nothing will be as it was before. This overly exploited phrase best describes the state we are in at the moment and applies to the social and economic systems alike.

After everything that happened, two basic questions arise: 1) What next? 2) How do we achieve it?

So, what are we to do? Before we apply therapy of a certain kind, it is necessary to give the right diagnosis. As follows, the task is relatively simple:

- the GDP is halved as compared to the level in 1989;
- industrial production is three times less than in 1989;
- the average wage has fallen below 90 DEM;
- unemployment surpasses 30%;
- foreign debt is larger than the GDP;
- foreign trade is minimal;
- inflation is striding and the dinar depreciating by the day;
- the country is isolated and with no access to international financial organizations...

What are the possible therapies under such circumstances? Before any economic measures are applied, it is necessary to bring people and institutions back to a normal course. Chaos and irregularity are becoming basic characteristics of the state we are in, threatening great achievements in the September elections. Thus, the reestablishment of legality is a conditio sine qua non. Unfortunately, at this moment, legal and executive rule does not function at either the federal or republic level. Each lost day brings new problems, and there is no time to lose.

There is a great readiness among foreigners for investing in our country in the near-term. Meanwhile, substantial assistance from abroad has been announced, for the time being on a bilateral basis. The reasons are manifold:

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FRY [a] Basic Economic Indicators	1999	1999 / 1998	VIII 2000	VIII 2000 / VII 2000	VIII 2000 / VIII 1999	I-VIII 2000 / I-VIII 1999
Industrial Production	...	-24.1%	...	5.3%	20.6%	20.6%
Montenegro	...	-7.6%	...	-14.5%	-4.5%	0.3%
Serbia	...	-25.6%	...	7.0%	22.5%	22.0%
Central Serbia	...	-24.5%	...	4.3%	20.0%	23.7%
Vojvodina	...	-28.2%	...	13.1%	29.0%	17.9%
Average Wage - DM	107	-31.7%	...	...	...	...
Montenegro	154	-14.1%	197	3.1%	24.4%	11.0%
Serbia	102	-33.8%	90	-2.5%	-9.3%	-22.9%
Unemployment Rate [b]	27.3%	8.3%	28.6%	...	...	...
Montenegro	36.8%	7.9%	40.6%	...	...	...
Serbia	26.5%	8.2%	27.6%	...	...	...
Export - USD million	1,498	-46.9%	136	-13.7%	30.1%	17.8%
Montenegro	123	-4.7%	6.9	-55.0%	-33.5%	41.3%
Serbia	1,375	-48.9%	129	-9.3%	37.1%	15.5%
Import - USD million	3,296	-30.3%	250	-10.7%	0.2%	29.7%
Montenegro	358	6.9%	19	-21.9%	-15.7%	2.6%
Serbia	2,938	-33.2%	231	-9.7%	1.8%	33.4%
Monetary supply (M1), end of period, DIN billion	16.4	51.9%	23.7	5.3%	71.7%	58.2%
Cash	6.7	34.0%	8.3	3.7%	55.1%	33.1%
Deposits	9.7	67.2%	15.4	6.2%	82.3%	75.9%
Real money supply, end of period, DM million	739	-42.3%	816	-2.6%	-21.9%	-35.8%
Market exchange rate, monthly level	4.25%	-38.8%	6.52%	3.0%	147.9%	34.3%
Retail prices [c]	...	42.4%	...	5.4%	71.1%	60.3%
Montenegro	...	60.1%	...	...	...	...
Serbia	...	41.1%	...	4.7%	64.5%	54.9%
Cost of living	...	44.9%	...	9.4%	83.4%	68.5%
Montenegro	...	67.2%	...	...	...	...
Serbia	...	43.5%	...	9.1%	76.6%	62.5%
Black market exchange rate (din/DM)	12.6	88.1%	26.7	12.6%	120.2%	123.4%

[a] GDP for 1999 was 14,224 million USD, GDP per capita was 1,699 USD, GDP annual growth rate in 1999 was 19.3%, GDP annual growth per capita in 1999 was -19.1% (G17 estimate based on official data of the Federal Statistics Bureau)

[b] Unemployment rate refers to July.

[c] Producer prices in 1999/1998 are up: for FRY 44.2%, Montenegro 63.7%, and Serbia 43.2%.

• the Yugoslav area was the largest hotbed in Europe during the past decade, carrying a constant danger of new military conflicts. By bringing their capital, foreign investors will sustain and strengthen democratic forces and prevent the return of retrograde formations;

• the Yugoslav market is attractive because of an exceptional lack of capital and high profit rates that can be acquired under such conditions. Apart from that, this area is interesting for productive investments since goods can easily be distributed on neighboring markets;

• low standards of personal consumption have been established due to prolonged isolation, and there is great demand for higher quality products. This is as encouraging for imports as it is for the production of higher quality goods at home;

• finally, foreign investors, especially from countries directly involved in last year's bombing, may feel the need to pacify the conscience of their nations for destroying Serbia by investing capital.

Announcements of substantial investments have already arrived from Norway, Italy, Germany, Czech, France and several other countries, as well as from the EU – making its first move on October 9 by lifting most sanctions. The international community thus offered unmistakable support beyond mere words for the democratization process.

The decisive step towards total transformation in Serbia was taken in the elections and during the defense of election results. That was, however, a necessary but insufficient condition for the expected overall social and economic transformation. Achieving that goal requires undertaking a huge job by the whole nation. The G17 PLUS Program, drawn up for the Democratic Opposition of Serbia before the election campaign, is completely operational and relies on realistic foundations, with no politicized or exhilarated promises.

First, legislative and executive authority must be established

Before the Program's realization begins, it is necessary to establish legislative and executive authority in the whole territory of the country. This implies urgent constitution of transitional governments at the federal and republican level. Problems have already surged that delay the choice for premier and government representatives. Because of political opportunism it is not certain whether the governments will be expert or political. If this situation lasts, there is serious danger that the strongly proclaimed process of economic recovery and social transformation will stagnate. The unsettled situation has negative influence on foreign investors and there is a possibility that their enthusiasm for investing might slacken. At this moment Serbia is a sensation in the media and in every other sense, due to the way in which the regime was overthrown. High consciousness, the decisiveness of people in protecting their will, and the small number of casualties during the changes influenced a turn of public opinion in all countries of the world. Now is the moment to take advantage of the readiness of foreigners to invest in our country. Once news from Serbia moves away from the front pages of newspapers, the positive charge will ease, giving way to indifference. Therefore, the normalization of economic flows and the creation of a positive environment for foreign investments are of the utmost importance.

Immediately following nominations for the federal and republican governments, activities for redefining relations with Montenegro must take place. It is necessary to adopt a declaration on urgent preparations for passing a new constitution. Laws with harmful consequences must be suspended, such as the laws on information, the university, on the expropriation of uncultivated land from farmers, presidential privileges, etc.

Return dignity and respect to civil service

Simultaneously, it is essential to return dignity and respect to the work of civil servants, ministers and government officials. Skilled and honorable people should be chosen, and their property should be made known to the public. Thus important functions will be open to public scrutiny and the credibility of officials restored.

The first ambitious task of the new federal government will be to adopt a package of reform laws, to be reconciled with European Union standards. This relates to laws for conducting monetary reforms and the beginning of fiscal reforms, an anti-corruption law, legislation on the military and police, on courts and judges, on public prosecution, on criminal law and criminal proceedings, on public information, on the university, on local governance, and a package of electoral laws.

Thereby, favorable conditions will be set for a return of Yugoslavia and Serbia to the world. The regulation of our status in the UN and the International Monetary Fund will have crucial significance. By insisting upon the continuity of Yugoslavia, the former regime was denied access to the most powerful international financial organization, automatically shutting Yugoslavia out of all other international financial institutions. Instead of headstrong insistence upon continuity, regardless of the validity of arguments, it would be more rational to apply for reception at the Fund under conditions that the former Yugoslav republics had to fulfill. After regaining our membership in the Fund, serious negotiations could commence with the Paris and London Clubs, our largest trustees, for regulating the existing foreign debt and obtaining new loans.

Lower taxes and broaden the base

The next major step relates to establishing an economic system that allows a long-term balance of the state budget. In order to achieve this, it is necessary to increase revenue by decreasing taxes and widening the fiscal base, on one hand, and to decrease budget expenditure on the other. Major reforms of the tax system and an introduction of the value-added tax (VAT), which exists in most European countries, are especially important.

Parallel to fiscal reforms, it is necessary to perform a complete reconstruction of the monetary system. Two possibilities for achieving a stable currency are being considered: 1) introducing a dual currency system, and 2) issuing a new domestic convertible currency. Although the first might seem as the simpler solution, easily attainable and already tested in practice, the second possibility is more favorable in the long term. Any serious country, and Yugoslavia certainly has such pretensions, must have its own currency as one of the symbols of national and state sovereignty. The implementation of such a concept requires substantial foreign currency reserves for defending convertibility. Existing reserves of 400 million dollars represent a solid base, but additional means should be sought abroad. A special fund could be formed to that end ("fund for defending convertibility") based on a loan from foreign countries that intend to support economic transformation. Means would be collected without interest, for a fixed time period - until total convertibility is achieved, then returned to trustees. The most probable solution for this would be a bilateral arrangement with countries that are showing great readiness to support early reforms.

Price liberalization and privatization

Price liberalization is the next important field that requires commitment from the new federal government. It is unavoidable if our goal is to achieve a market economy, but it also represents the first great danger for the creators of a new economic policy. The best way would be to opt for a gradual liberalization of prices, along with subsidizing the poor in order to avoid social discontent.

Finally, the inevitable topic: privatization. Halfway, inconsistent and non-mandatory solutions from previous practice influenced the slow management of privatization so far. Acquired experience clearly shows that privatization should be performed quickly, in an obligatory and transparent way.

If the creators of new economic policy are to be independent enough to break from political influence and party pressures, prospects for complete recovery will be good. Contrary to which an economic system similar to the one before will be formed, and the discontent of citizens will be evident once again in the next elections. However, the price that was paid to achieve our current position was too large, politicians should not be allowed to put this chance at stake. We will probably never have such a chance again.

ORGANIZATION OF THE FINANCIAL MARKET

The state in which the reform government will take over the country and its economy imposes the task of urgent activities along several lines. Among others, two primary goals are: privatization and the regulation of monetary conditions, which bring to the foreground the financial market, its institutions, and the regulation of management within it.

Threefold significance

First, the success of privatization depends especially on a regulated environment of implementation for the following reasons:

1. Investors want a regulated business environment. Opening the country to direct foreign investment is a necessary move for collecting means that would serve to implement reforms and establish a special fund for stabilization. Many domestic companies will be privatized through public tender by strategic investors and partners.

   However, small and medium-sized enterprises (SME's), being a particularly important part of economy because of their vitality and mobility, are not always interesting for this kind of privatization. Therefore, other models should be applied for privatizing these companies. Regardless of whether "small" or big investors - strategic partners or investment funds from abroad are considered, their rights should be protected and their activities secured through institutions of the financial market;

Privatization without institutions ends in misconduct and corruption

2. Privatization without institutions ends in misconduct and corruption. The absence of institutions, their weakness or insufficient activity on surveys and regulation of the market, and above all, on providing transparency, contribute to misconduct during privatization, the artificial reduction of company price and usurpation of ownership by the most apt manipulators, rather than of highly skilled managers of capital. Examples in Czech, Slovakia, Croatia and Russia support this argument;

SME development aids critical change of the social milieu

3. The lack of institutions disables progress toward an additional quality of privatization: change of the social milieu and support to creating a civil society. The SME segment is a framework for forming an independent middle class, which is, in turn, the basis of civil society. The middle class has almost disappeared from our social milieu during the past ten years, and without its reestablishment and growth there can be no development of an open democratic society;

4. Without institutions it is impossible to achieve a central quality of stockholding: an increase of efficiency in economy by capital mobility and fast reactions to market fluctuations. Stockholding in itself loses significance for an economy if it does not allow simple and prompt changes of property through financial market institutions. Thus, stockholding enables fast shifting of capital, and, consequently, achieving balance on the market.

Secondly, an organized foreign currency market will legalize foreign currency trade, while also providing instruments for protection against currency risk and defending the stability of domestic currency through futures foreign currency trade.

Protection from currency risk through a futures market

The example of the Budapest commodity (futures) stock market shows that the existence of possibilities for protection against currency risk is one of the decisive criteria of foreign investors when entering a foreign market. Its fast success is mainly based on this kind of organized protection by means of futures foreign currency contracts.

On the other hand, the example of Montenegro serves to illustrate the negative consequences of omitting the organization of such protection - its market still has both dinars and German marks in circulation, but there is no instrument that provides protection from currency risk. Like instruments - foreign currency bonds, dinar/mark futures contracts - would provide for the fast withdrawal of surplus marks (or dinars) from the market, so as to avoid a rise of prices in marks, for example.

Third, inflationary pressure caused by financing primary agricultural production can in many ways be mitigated, even removed in great measure, by futures trade instruments. One of the most important causes of the catastrophic state in agriculture is bad production stimulation and production financing. Guaranteed state purchases of wheat could not solve anything: apart from not receiving the promised price, producers were paid amounts sufficient enough to cause inflationary "wheat" blows. Futures trade in primary agricultural products distributes the burden of financing evenly throughout the year through financial market instruments.

Regulatory decision-making processes have been relocated beyond institutions

Ownership is a product of political affiliation, not market acumen

The SEC must be defined in expert rather than political terms

The futility of existing institutions

Some institutions through which financial market organization could be conducted exist even now. These are the commission for securities, the stock market, and brokers. They, however, remain beyond essential market flows. They are experiencing what all other economic and social institutions experienced: real life goes past them.

Deinstitutionalization here denotes relocation of the decision-making process outside the institutional structure, where institutions themselves become unsubstantial and useless. Everything is relocated beyond institutions and their rules, regardless of how these very rules are futile and wrong. Therefore it cannot be said that there exists any system, any complete technological whole, of any kind in Serbia. Moreover, we are facing remains of a personal/family regime that cannot function without incentive from a single center of power. Thus the extensive dysfunction and inefficiency – no one dares take the initiative for solving least significant matters without permission.

Lacking systematic action through institutions, each decision is passed for itself, with no continuity, no reliance on rules and standards, and no possibility for experience-based planning. From there derives so much insecurity in conducting business, hence the reduction of planning horizons and business horizons to periods that are shorter than a month. All this is especially lethal for the financial market, which relies upon security, institutionalized trust, and transparency in its organized form.

The Securities' Commission

Formed as a federal agency, the Securities' Commission presently functions only on the territory of the larger federal unit. This is a direct consequence of its central determinant, party and political affiliation. Like all other state bodies, it was marked by the former political coalition in its rules and in relations that governed therein. Thus the latent conflict of the Commission vs. the Ministry for Property Transformation, that impeded attempts for the placement of stock from privatization performed so far.

Privatization is also marked in the same way, so it is more justified to talk of transforming social into party property, rather than social to private. The basic unit for implementing privatization is the company, which is controlled by management appointed by the political nomenclature. Inconsistent with the nominal intent of the law, management consistently retains control over firms, by using institutions vaguely defined by law. Before they become stock companies, firms confine themselves to a form of closed partnership societies controlled by "party" people.

Stockholding has also become an empty shell. Rarely can a right of stock be exercised - dividends are not paid, access to administrative boards is determined by political affiliation rather than property, societies confound business data and hardly ever publicize them. Stockholding has thus been almost completely repudiated, due to the lack of real protection of ownership rights' and regardless of the form of privatization - strategic investment, as in the case of ICN and "Galenika," or small stockholders. Hence it does not surprise that there is no trade in stocks – there is no motive since they are deprived of their very essence.

Obviously, much work lies ahead for the Securities' Commission, which is expected to embark upon serious activity. New regulations have to direct activities of the commission to: the protection of investors and stock market control, denoting transparency to the largest possible degree, and promotion of the financial market and stockholding. Also, the Securities' Commission should take over futures' trade regulation, i.e. trade with futures' contracts. Regulation itself, however, is not sufficient. It is crucial that bodies like the Securities' Commission be defined in expert rather than political terms.

Securities' registers

Property rights' protection is technically, and essentially, hardly feasible without a securities' register. There is no like institution on our market so far. In its establishment, however, another comparative advantage with regard to other transition markets should be kept in mind - the existence of a Payment Service network. The Montenegrin project for a privatization register is also shaped by this fact, as well as the present legal project for a central register. The Payment Service network would enable efficient transfer of property, and control of the same, on the state level, proceeded by a dematerialization of securities. However, it would be wrong to permit direct trade through this kind of network. In Czech and Slovakia, direct trade through a similar network - the RMS, lacking financial market regulations and institutions, led to extensive manipulation with voucher and stock prices.

The securities' register must be the subject of new regulations, in the first round of reforms. Without them we will have a situation similar to that in Russia, where stockholders' books are kept arbitrarily and there is no possibility to control or protect stockholders' rights. Such conditions will not attract many investors.

Funds

Apart from a securities' register, this market is also unfamiliar with investment funds. There existed brokers' agencies that tried to function like privatization funds during the process, but were disabled by the commission. Funds are, therefore, another subject that should be defined by new regulations. Their function of concentrating free small capital is all the more significant when we consider the total lack of organized savings in our country.

A total lack of organized savings

The stock market

The stock market has been facing a systematic problem since it was formed - a conflict of status (founders) and function (mediation). As opposed to the usual way of forming stock markets by associating mediators, current positive regulation does not allow mediators to be founders of the stock market. Banks are the largest founders of the stock market, where half the administrative board consists of representatives of the largest banking group in the country, which covers 60% of the financial market. Thus a paradoxical combination: stock market and monopoly. The stock market functioned as an administrative body during most of the decade of its existence, one that communicated by official correspondence and statements with parties who had to be stimulated for business. Recent attempts to change something on this relation are facing a whole series of problems, which derive from the simple fact that the existing non-market environment does not support the stock market as a market institution.

New regulations should resolve this constellation and place it on healthier foundations. The stock market consists of a whole scheme of relations between itself and stockbrokers, so that their access to conducting business policy on the stock market is necessary. In a certain transitional period the existing founders could be authorized to transfer stock, i.e. sell it to stock market dealers. Through that kind of network, and in direct cooperation with it, a connection between the stock market and market could be established, where the stock market is one of the market's focal points. Only then could the existing situation be overcome, where there are technical conditions for securities' trade on the stock market, but those who should be dealing are unconcerned and do not have what to trade with, except for short-term securities.

Regulation must separate the contracting and execution of deals

The dealers' network itself should also be adapted to an organized financial market. Now it conforms to the existing situation where there is trade only with short-term corporate debt securities. Out of fifty brokerage houses, half are inactive, a major part of the other half relates its activities to a few companies, being a kind of internal broker, while some ten houses try to develop their activities in full compliance with the circumstances. Adapting the brokerage network would refer, above all, to a separation of contracting deals from their execution, therefore, to the formation of a double level of mediation between the stock market and market, where security of financial market transactions would be raised.

Responsibility for security in business transactions should be shifted to brokers as well, or their associations that should be organized as lawyers' or doctors' chambers. Self-regulation proved to be the most efficient means for preserving basic professional standards. The existing form of a business association of brokerage houses is superfluous. The stock market should be the business association of brokerage houses.

Regional cooperation

In the forthcoming period all mentioned institutions, especially the securities' commission and stock market, should develop another dimension of activity: regional cooperation. The Southeast European Cooperation Initiative (SECI) has made considerable progress in this sense. Regional stock markets have been trying to set the foundations of mutual cooperation at regular meetings for some time now. The final goal is to form a regional electronic stock market, and it is motivated by awareness that all national markets in the Balkans are too shallow to support development of larger, top-quality firms.

A regional stock exchange to pool shallow markets

Achieving the goal would first require mutual exchange of brokerage houses' members, regional listings' and exchange contracts' standards. Hence a listing of top-quality companies in the region would be derived, while national stock market listings would serve as preparation for regional listing - similar to the relation formerly established between NYSE, as the larger, and AMEX as the smaller stock market. Conditions would be set for retaining securities of major companies in the region for the longest possible time, instead of previous large leaps of the Hungarian telekom, or "Pliva" pharmaceuticals, the stock of which shifted to large world stock markets as soon as they outgrew limits of narrow domestic markets.

Finally, the Bucharest commodity stock market, immediately followed by the one in Budapest, initiated development of cooperation between commodity (futures) stock markets in countries of the Danubian flow in 1994. The basic goal of this cooperation was to form regional standards for futures trade in grain, under the rightful assumption that in financing agricultural production, the defense of prices and placement of goods can more easily be provided through a wider base. The lifting of sanctions will open possibilities for our inclusion into this initiative, which should by no means be overlooked.

MACROECONOMIC REVIEW

The pace of political and economic changes has been very hard to follow during the past month. At the risk of being late with regard to the outcome of events, the macroeconomic review will be consistent in commenting upon the economic circumstances that preceded these events and represented a good landmark for the favorable political turnout.

Prices, the exchange rate, wages

Former experience with political cycles in Serbia distinctly shows the occurrence of a real increase in wages precedes elections. This happened both in 1996 and 1997. However, the real decrease of wages in August is insignificant, from 92 to 90 DEM, while pensions mark a real drop as compared to July (from 77 to 68 DEM). *This is the first time that the former regime could not manage to raise real wages before the elections.* The graph clearly shows a divergence of real wages fluctuations expressed in DEM and in real dinars calculated through deflation by living cost indices. This partly absurd situation can be explained by an expansive monetary policy and price control. We have pointed to the inadequate survey of prices several times, and to the fact that 60% of prices are under direct or indirect government control. In this way, disguised or suppressed inflation makes the stagnation of real dinar wages the least credible. *The effects of directed economic policy and exaggerated state interventionism could not remain subdued, thus disabling theretofore use of an increase of population income as a pre-election trick.*

It is interesting to note, for the first time in several months, a larger increase of officially stated price and living cost indices in August as compared to the month before. Retail prices rose by 5.4% in the FRY, and by 4.7% in Serbia this month. The growth of living costs was almost twice the growth of retail prices this month, amounting to 9.4% in FRY, and 9.1% in Serbia. Real fluctuations are increasingly hindering manipulations with statistical data, demonstrating that economy is already surpassing monthly inflation rate intervals of 5 to 6%, thus reaching an annual rate of around 100%. As compared to the previous month, when living cost growth amounted to 3.2%, the growth in August is three times as large.

The official annual inflation rate (August 1999-August 2000) has reached the level of 64.5% for retail prices, and 76.6% for living costs. For the period of January-August 1999, retail prices in Serbia this year are up by 54.9%, and living costs by 62.5%.

The effects of a 6.7% increase of money in circulation in July started to show in August. The giro exchange rate did not change significantly, which is logical because there was no increase of deposit money in July, while the August increase had not yet reflected.

After the elections were scheduled, relative stability of the black market exchange rate, maintained by changing the structure of M1, started slackening, followed by dramatic exchange rate fluctuations. The average black market exchange rate to the DEM was 12.7% larger in August than in July, maintaining the same trend in September. An attempt was made to maintain the level from August until several days before the elections, when a further rise of the DEM exchange rate took place and reached a level 52% greater than in July. It seemed as though a level was reached where changes in M1 almost immediately reflected upon exchange rate and price fluctuations. *Milošević had entered pre-election silence with a hint of chaos on the foreign currency market and inflation that was escaping control.*

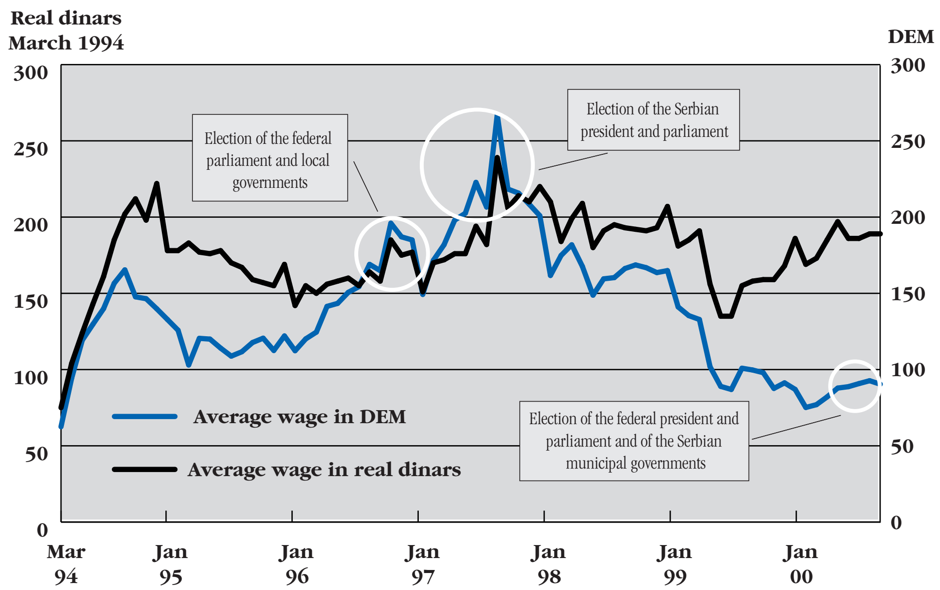
Industrial production

The period of recession that began in 1998 is continuing, although monthly indices are impressive at first sight. In August, the FRY marks industrial production growth of 5.3% with relation to July. In Serbia, production grew by 7%, while it fell by 14.5% in Montenegro. Production increased in 23 sectors, ranging from 1% (oil and gas) to 92.7% (non-metals). Eleven sectors mark a decrease, ranging from 0.7% in yarn and fabric production, to 56.5% in rubber processing.

The deseasoned index for August paints a slightly different picture (1999 average=100), marking a fall of 0.6% relative to July. After growth in the first four months of this year, the index is stagnating and holding at a level of around 120%. Compared to August last year, industrial production grew by 20.6% in FRY, and by 22.5% in Serbia. Industrial production in August 2000 was down 65.6% relative to August 1989.

August 2000 marks a fall of production year-on-year in nine sectors: iron ore production 21.2%, fodder production 11.2%, rubber processing 9.9%, production of beverages 2.9%, final wood products manufacture 2.7%, shipbuilding 1.8%, food production 1.3%. All other sectors record growth ranging from 0.9% in yarn and textile production, to 785.6% in oil derivatives' production. The latter is the most obvious example of increase determined by a low base. Almost all capacities for oil derivatives' production were destroyed during the bombing, so that very little in the way of oil derivatives were produced in August of last year.

Preelectoral Movement of Wages in Serbia



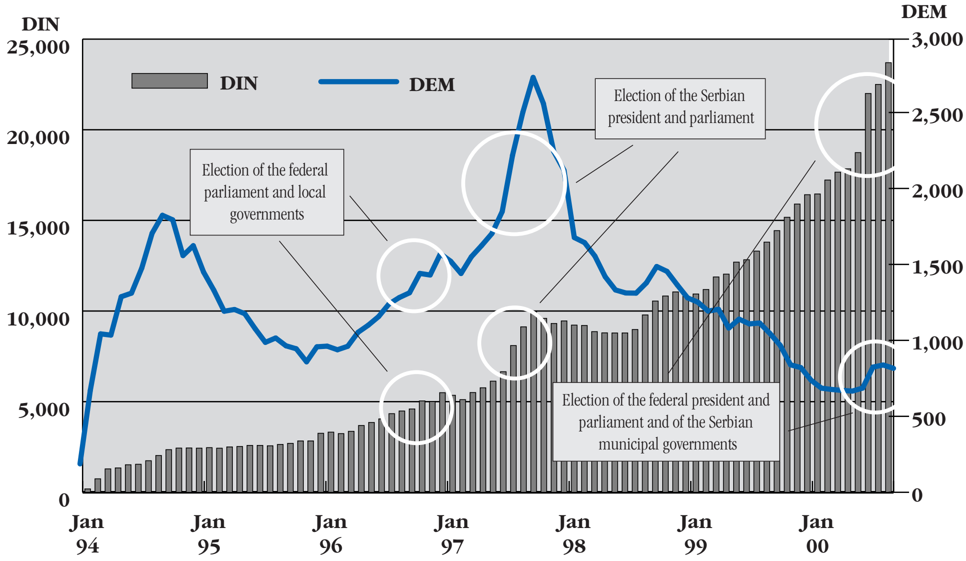
Foreign trade

Total foreign trade in August in the FRY amounted to 386 million USD. Exports accounted for 136 million USD, and imports for 250 million USD. Serbia exported goods worth 129 million USD, and imported 231 million USD worth. The degree of import by export coverage in August was 54.4% for FRY, and 55.8% for Serbia, while in July it was over 60%. The reason for this fall was a 13.7% decrease of FRY exports during that period.

In the first eight months of this year FRY exports were worth 1,009 million USD, while imports were 2,237 million USD worth. The deficit was larger than exports and amounted to 1,228 million USD, so that there was only 45.1% coverage of imports by exports. Compared to the first eight months of 1999, exports are up by 17.8%, and imports by 29.7%. The situation is much better when we compare it to that in August 1999. Exports are up by 30.7%, while imports are almost steady (0.2% growth). The increase of exports is not a result of improved performance in economy, but of a low basis from August last year when wartime consequences had much greater impact than today.

Our main export partners in this period were Bosnia and Herzegovina (15%), Macedonia (13%), Italy (12%), Germany (11%), and Russia (6%). Our imports came from Germany (14%), Italy (11%), Russia (10%), Bulgaria (9%), and Bosnia and Herzegovina (4%). The FRY has a positive balance in foreign trade only with Bosnia and Herzegovina. We have the largest deficit in trade with Germany - 198 million USD, followed by Russia - 159 million USD. Crude oil and natural gas comprise more than one third of imports from Russia (80 out of 221 million USD). The import of oil from Russia was both in the last year, and in the year before, considerably down from 1998 volume and earlier. Capacities for oil processing were destroyed during the NATO bombing, so that now oil derivatives are imported instead of crude oil. Still, during the past four years, imports of oil and gas from Russia amounted to 1.078 billion USD, while total exports to Russia amounted to only 577 million USD, so that the difference will have to appear somewhere.

Money Mass (M1), in millions



The situation in this field also had implications in the pre-election period. In isolated conditions, Milošević needed to declare someone as our potentially most significant foreign trade partner in the election campaign. We can observe two conflicting tendencies with regard to this issue. On one hand, an agreement on free trade was signed in August and a commodity credit for the Electric Power System was approved. On the other hand, gas deliveries from Russia ceased this year, due to our inability to respond to past obligations. Providing easy access to Serbian companies is most certainly Russia's interest, in order to be able to collect claims as quickly as possible. But even though the signed agreement was used in the election campaign, it is essentially aimed at a faster settlement of debts rather than support for Milošević. Access to most Serbian companies is still confined, so that payments will have to take on other forms in the future. However, a different issue altogether had a much more significant role in the election campaign. The existing fluctuations of the price of oil on the world market favor Russia. Since the fluctuations were anticipated as such at the beginning of the year, they led to assumptions that Russia would have a better negotiating position towards Western countries, and that it would easily approve favorable conditions for exports of oil and gas to Yugoslavia. The point is that the former Yugoslav regime never received this kind of "essential" assistance from abroad and had to face a *shortage of oil derivatives that it was not able to solve.*

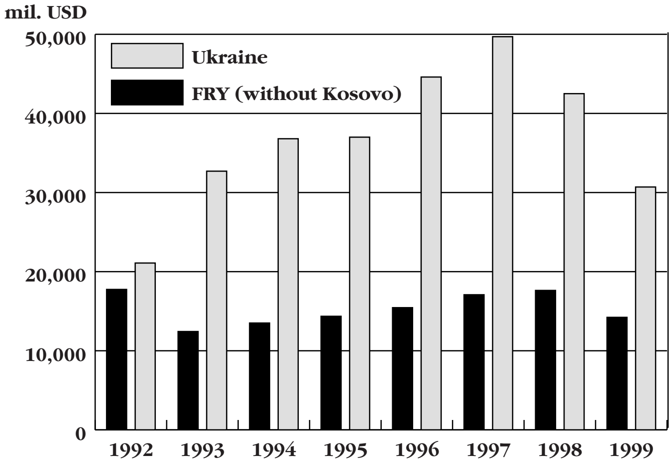
Monetary policy

The long-term effects of badly conducted economic policy, and the country's surroundings in general, made the implementation of usual pre-electoral moves impossible. The money mass increased by an additional 1.2 billion dinars during August, amounting to 23.7 billion dinars. Since May of this year, M 1 cumulatively increased by 5 billion dinars. Apart from exceptional nominal growth, the real money mass remained at approximately the same level of 816 million DEM, as related to 838 million in July that were calculated on the basis of the exchange rate pondered to the money mass structure. Demonetization, or the shortage of real dinars, remains characteristic in Serbian economy.

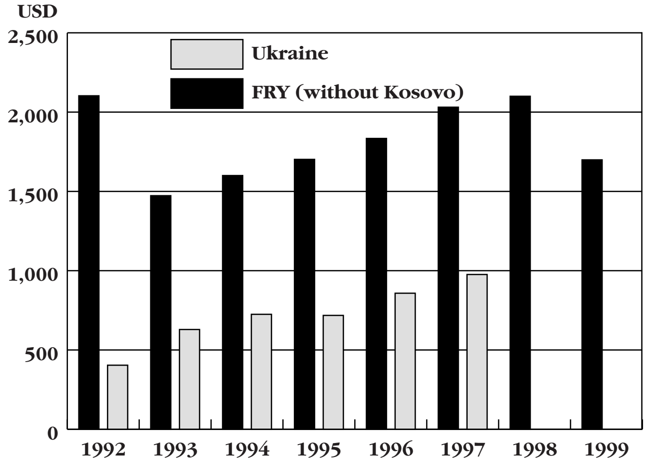
Enormous growth of nominal money mass could be observed in previous pre-election periods as well. It was different this time, however. Previous elections were conducted in more favorable macroeconomic circumstances and the state was able to maintain relative stability in that period (formerly the sale of Telekom in the election year). Under conditions of a stable exchange rate, nominal changes automatically reflected on the real money mass as well. The situation this time was completely different, so that the usual debt payment in the pre-election period and the attempt to incite economic activity by reconstruction resulted in a high degree of instability in the money sector, instability enhanced by the lack of control over business banks.

Yugoslavia in the mirror of Eastern Europe

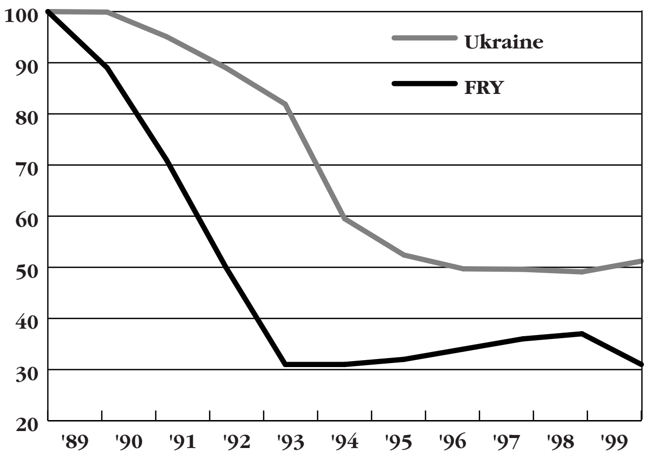
GDP



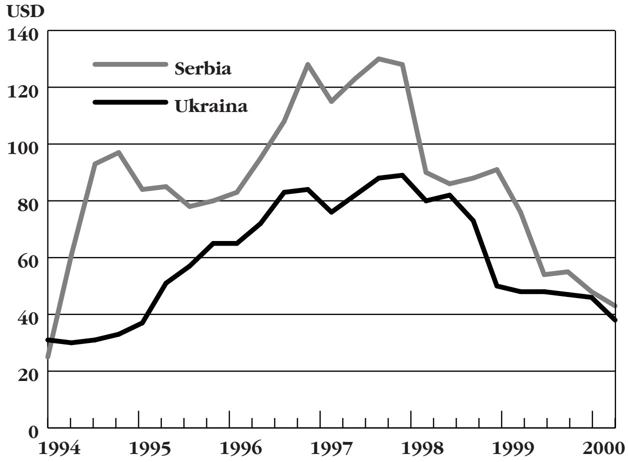
GDP per capita



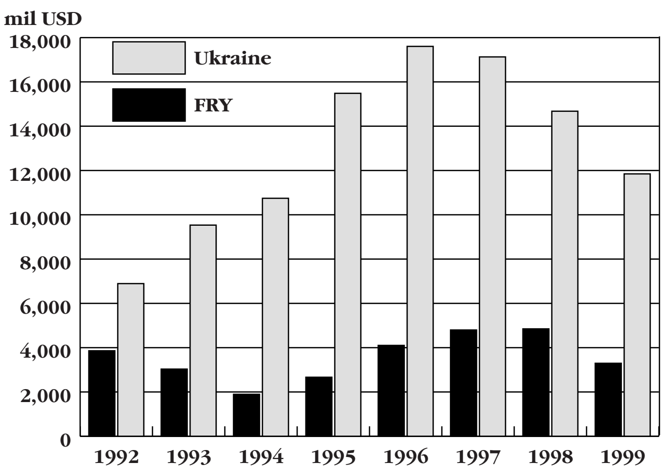
Industrial Production
1989 = 100



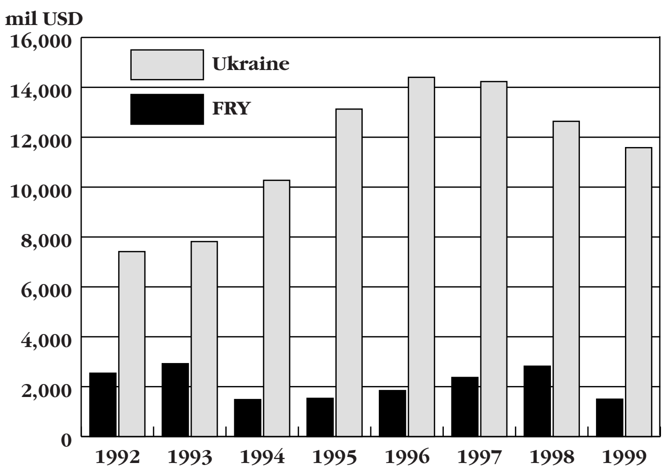
Salaries
Quarterly Avarages



Import



Export



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